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ABSTRACT

This paper presents a conceptual framework for analyzing the impact of funding cutbacks on human services organizations (HSOs). HSOs include publicly-funded educational, health, welfare, and cultural organizations. The framework identifies five categories of variables which influence an organization's reaction to cutbacks. Category one, "objective characteristics" of cutbacks, includes the severity of the cut in terms of money and time schedule, the funding organization's reasons for the decision, and the degree of power the funding source has to dictate the specific nature of cuts. Category two, "contextual conditions" of cutbacks, includes the level of awareness and interaction of the HSO with other groups in its field, experience and personality of the HSO's administrators, and the organizational structure and management of the HSO. Category three includes the way the cuts are perceived by the HSO's key decision makers. Their perception of the cuts' severity and causes, and the power of funding the agency directly affect the action they take in response to the cuts. These responses constitute category four: reduction of organizational activities, efforts to replace lost funding, and changes in internal operations. The last category, which is affected by the HSO's responses, includes changes in organizational effectiveness and in the quality of the working life of its staff. (AV)

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COPING WITH HARD TIMES:
BUDGET CUTBACKS IN HUMAN SERVICE ORGANIZATIONS

PART 1:
An Analysis of the Emergence and Recognition of Cutbacks

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ABSTRACT

This paper provides a conceptual framework for the analysis of externally imposed funding cutbacks in human service organizations. This is the first of a two part review of previous theory and research related to organizational processes and impacts of cutbacks. The focus here is on how and why organizations perceive cutbacks as they do, i.e., the determinants and conditions under which the perception of cutbacks emerges for a focal organization. Objective characteristics of the cutbacks (e.g., their magnitude) are shown to combine with various contextual conditions (e.g., organization design) to shape the subjective interpretation of the cutbacks. A series of hypotheses are suggested for the purposes of subsequent empirical testing.

COPING WITH HARD TIMES:
BUDGET CUTBACKS IN HUMAN SERVICE ORGANIZATIONS

Part 1: An Analysis of the Emergence and Recognition of Cutbacks

INTRODUCTION

For the past several years there has been a growing tendency for legislative bodies in the United States and Canada to reduce government spending. While few government funded activities have escaped the pressure to cutback, this effort has been directed most strenuously at educational, health, welfare and cultural organizations: that group of largely semi-autonomous and publically funded institutions generally known as "human service organizations" (Hasenfeld and English, 1974). The reasons for the cuts are numerous and complex. Among the more commonly cited are: 1. the decline in population growth rates; 2. the rate of inflation which some politicians and economists believe is exacerbated by the high rate of deficit spending by governments; 3. a "drift to the right" in political sentiments which seeks a general reduction in the involvement of the state in people's lives; and 4. disillusionment among politicians, the media and the public in the ability and efficiency of human service organizations.[1]

For many human service organizations the financial squeeze began in the early and mid-seventies as the rate of population growth became noticeably slower. Their own rate of organizational growth became concomitantly slower

[1]This refers to a belief that schools and colleges do not educate properly and that, in any case, the benefits of education are overrated; a belief that the health care system does not cure or prevent poor health as efficiently as it should; a belief that social welfare agencies have not eased or eliminated the various social problems they were set up to deal with; a belief that cultural organizations like museums, libraries and performing arts organizations soak up too much money yet only appeal to an elite of upper-class patrons, etc.

and in recent years it has turned into outright decline. Most predictions by economists and sociologists indicate that this state of affairs will either remain or get worse until at least the mid-eighties (Orris, 1979).

For the managers in human service organizations, the advent of "hard times" has been particularly trying. After the end of the second world war there was a period of 25 to 30 years in which an entire generation of managers grew up imbued with the notion that people would only demand more of their organization's services and be willing to pay as much as necessary to get them. Little wonder that the advent of funding cutbacks has produced near chaos in so many of these organizations.

Largely because of the relative recency of the phenomenon, there has been as yet comparatively little research and theory on how organizations react to externally imposed budget reductions and the implications of these reactions on organizational effectiveness. On the other hand, the cutback phenomenon can be seen to reflect various aspects of a number of more abstract concepts and theories in the field of organizational behavior; specifically the work that has been done on organizational crisis, environmental uncertainty, organization change and stress. As yet, however, explicit connections between this work and reactions to cutbacks have not been made in any systematic fashion.

The purpose of this paper therefore, is to provide a conceptual and theoretical grounding on which to base subsequent empirical studies of the effects of funding cutbacks on human service organizations. This paper is the first of a two part review. The focus here is on how and why organizations perceive cutbacks as they do while Part II (forthcoming) considers how and why organizations react to, and are affected by, such crises. We begin therefore,

with an overall conceptual framework for the analysis of funding cutbacks. (Fig.1) This will allow us to examine the factors affecting the conditions under which an organization "perceives" cutbacks. The supportive literature and evidence for the framework will follow, as well as a series of hypotheses suggestive of further research.

A Framework for Externally Imposed Budget Reductions

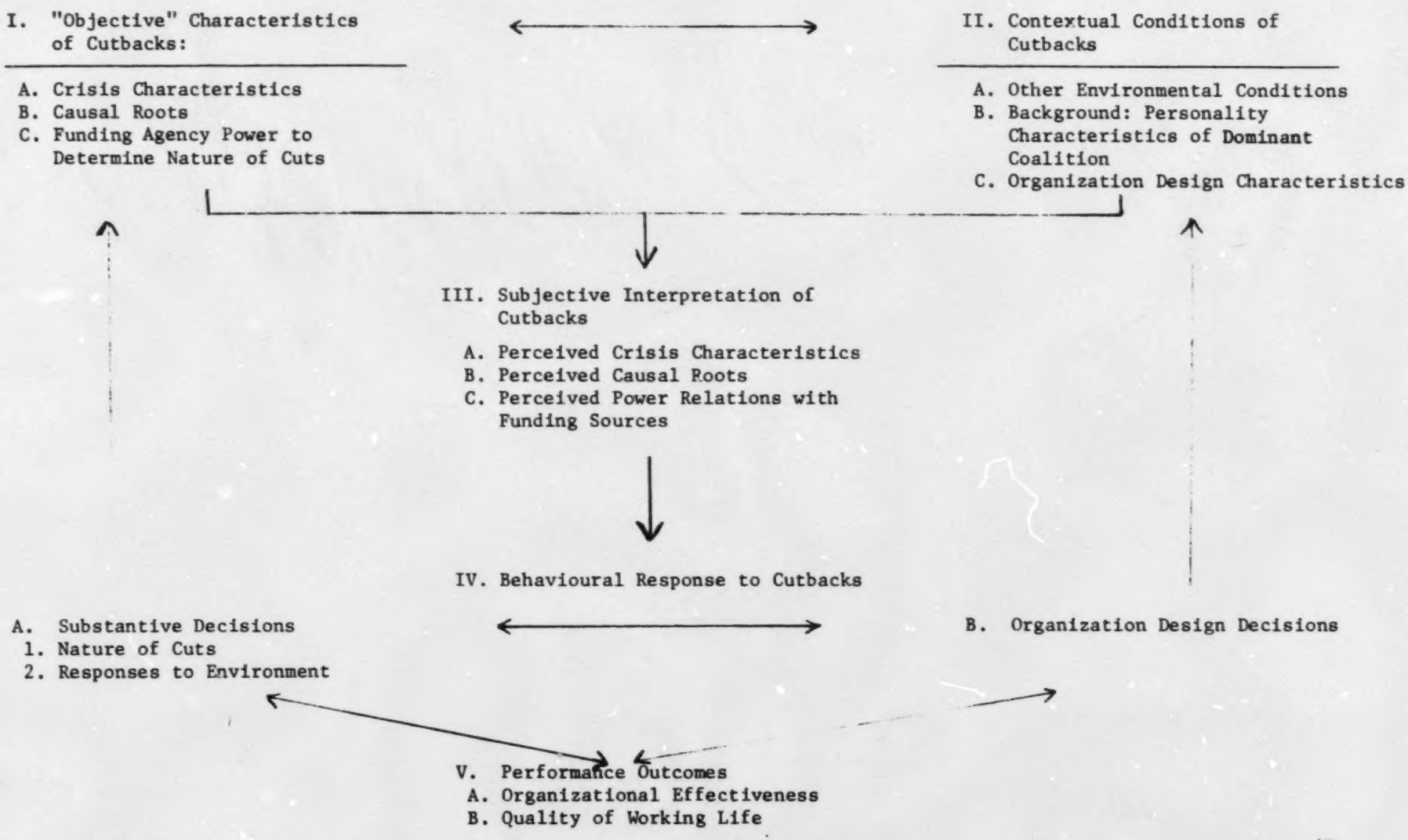
From Figure 1 it can be seen that our framework begins with the decision or process by which funding sources impose budget reductions on the focal organization. This cutback decision can be described in regards to the following "objective" characteristics: (A) Crisis Characteristics, i.e., the severity of cutbacks as judged by knowledgeable and impartial observers of the situation in terms of their magnitude and expectedness. Thus, for example, a budget reduction of 10% with only two months notice is, objectively speaking, a greater crisis than a cut of five percent with twelve months to plan for the implementation. (B) The Causal Roots of the cutbacks, i.e., the funding organization's stated reasons for the decision, and (C) Funding Agency Power, i.e., the degree of power of the funding source to dictate the specific nature of cuts in the focal organization necessary to achieve the designated reduction in expenditures.

(Insert Fig. 1 about here)

Another major group of variables which influence how the organization will understand and appraise cutbacks have been called "contextual conditions". Three sets of variables are included. The first of these, "other environmental conditions", refers to a variety of pertinent conditions in the external

Fig. 1.

A Framework for the Analysis of
Funding Cutbacks in Human Service Organizations


I. "Objective" Characteristics of Cutbacks:
A. Crisis Characteristics
B. Causal Roots
C. Funding Agency Power to Determine Nature of Cuts
II. Contextual Conditions of Cutbacks
A. Other Environmental Conditions
B. Background: Personality Characteristics of Dominant Coalition
C. Organization Design Characteristics
III. Subjective Interpretation of Cutbacks
A. Perceived Crisis Characteristics
B. Perceived Causal Roots
C. Perceived Power Relations with Funding Sources
IV. Behavioural Response to Cutbacks
A. Substantive Decisions
1. Nature of Cuts
2. Responses to Environment
B. Organization Design Decisions
V. Performance Outcomes
A. Organizational Effectiveness
B. Quality of Working Life

environment which affect the focal organization's interpretation of cutbacks. This includes, for example, (1) to what degree the cutback is part of a wider program of spending restraint affecting similar organizations and (2) whether the attitudes of the general public toward the funding organization are positive or not. A second pertinent contextual condition is represented by the background and personality characteristics of the organization's key decision-makers or dominant coalition (Thompson, 1967). Existing research, to be discussed below, indicates that such characteristics can strongly influence the way the objective conditions surrounding cutback decisions are interpreted. A final major influence shaping the perception of, and response to, funding cuts is the way the organization is set up and managed. These are termed "organization design characteristics", operationalized in terms of Galbraith's (1977) five-component model (i.e., strategy, choice of domain, formal organization structure, information system technology, human resources policies, and reward systems).

Our framework is based on the assumption that organizations differ from one another in the way they respond to events like externally imposed budget cutbacks. This response, of course, differs depending on the specific characteristics of the cutbacks. But, even given an identical funding reduction applied uniformly to many organizations, the responses may vary according to how the cutbacks are subjectively interpreted by the key decision-makers. It is posited here (and illustrated in Fig. 1) that the interpretation is based upon an interaction between the "objective" characteristics of the cutbacks and the contextual conditions both inside and outside the focal organization.

Given a certain subjective interpretation of the cutbacks the organization's key decision makers must take action; i.e., there are clear behavioral responses. Two fundamental kinds of responses are posited in our framework. One has to do with the substantive decisions necessitated by the cuts. There are two groups of these: it must be decided (a) which particular organizational activities are to be reduced or eliminated in order to save the required amount of money and (b) what, if anything, can be done either to get the funding source to cease making cutbacks or to replace the lost funds from other sources. These decisions are the so-called "Responses to the Environment".

The other set of behavioral responses to the cutbacks have to do with how well the organization sustains its day to day operations. Does it fall into a state of chaos and shock or not? These responses are most easily discussed within the same set of organization design elements identified in the discussion of the contextual conditions of the cutbacks e.g., does the organization react by changing its domain strategies or altering its formal structure? How are its information systems affected? Does it change its human resources policies or reward systems?

Finally we must recognize that the behavioral responses to funding cutbacks in turn have their own effect, simplified into two main clusters: those affecting the effectiveness of the organization in achieving its designated goals and those affecting the quality of the working lives of those who are members of the organization.

This very brief exposition of the nature of the conceptual framework merely introduces the basic approach we have taken to reviewing existing thinking on how organizations respond to funding reductions. The remainder

of this paper explores in considerably more detail the determinants of the subjective interpretation of cutbacks. As mentioned, a subsequent paper goes on to deal with the way these are translated into behavioral responses and the impacts on performance outcomes.

I "OBJECTIVE" CHARACTERISTICS OF CUTBACKS

A. Crisis Characteristics

Practically every student or practitioner who has had anything to do with funding cutbacks would agree that they represent at some point a form of crisis for the organization. We begin, therefore, by examining the idea of organizational crisis and considering its value as a way of conceptualizing what an organization responds to when its funds are reduced.

Hermann's definition of crisis, which is by far the most commonly used, states that: "Crisis is a situation that (1) threatens the high priority goals of the decision-making unit; (2) restricts the amount of time available for response before the situation is transformed; and (3) surprises the members of the decision-making unit when it occurs (Hermann 1969: 29).[2] It is furthermore asserted that all three conditions must be present for a crisis to exist.

While Hermann's definition of crisis has intuitive appeal, a recent paper by Billings, Millburn and Schaalman (1979) suggests that the definition needs some reexamination. The basic point of their critique is that current definitions such as Hermann's assume that the subjective interpretatation of objective events will be uniform and veridical so that, for example, if a "panel of experts" examines a given phenomenon and declares that it represents a threat, a surprise and a short decision time for an organization it will by

[2] See also Hermann, 1963, 1972.

definition be a crisis and be perceived as such by decision makers in the organization. Billings et.al. (1979) take the position that subjective interpretations of crisis may well differ from their "objective" characteristics.

While this reformulation of the concept of organizational crisis as a subjectively experienced phenomenon is doubtless a more realistic and valid approach, it should not be taken to mean that "objective" conditions are not important. The response to a crisis is no doubt strongly mediated by the way it is subjectively perceived yet this in turn is at lea t partially shaped by the objective conditions of the crisis event itself. The problem is therefore to identify and define the most critical elements of what might be called an objective crisis event(s) relevant to funding cuts.

For this purpose a slight modification of Hermann's definition is still useful provided the terms are not confused with subjective interpretations. Thus one could have the following critical dimensions of organizational crisis:

1. "Objective Severity" of the Crisis: This is similar to Hermann's concept of threat. The latter term is dropped simply because its connotations are more strongly subjective in every day use. The "Objective Severity" of a crisis event for an organization would be what a "panel of experts" striving to be objective would conclude as to the most probable effects of the crisis event on the organization's ability to survive. That is to say, it would be the chance that the event would reduce critical inputs (resources, supplies, labor, etc.), reduce the acceptance rate of outputs (by clients, customers) or reduce the ability to create the good or service produced (throughput interference).

2. "Surprise" of the Crisis: Hermann's concept of surprise is here differentiated into two concepts, information clarity and forewarning. Information clarity refers to the amount and degree of ambiguity in the information available regarding the likelihood of future events. This can range all the way from the vague, metaphorical predictions of Nostradamus and I Ching through the multiple conflicting claims of the average rumour mill that functions in any complex environment to a clear, unambiguous presentation of scientific, demographic, economic or other data which, by the usual tests of scientific rigour, support a given prediction of events (e.g., a hurricane warning). Objective forewarning refers to the amount of time between first becoming aware of the crisis and the arrival of the crisis event (again as judged by a "panel of experts"). What would be estimated here was whether there was a clear indication that the budget cut (or tornado or fuel shortage or other crisis event) was coming and how long a period there would be between such information being presented to the decision-makers and the event itself.

3. "Objective Rate of Occurrence": A related element which strongly shapes how unexpected a crisis can be, is the number of times the crisis event (or one highly similar to it) has occurred previously. The first budget cut in twenty-five years is likely to have a different impact than the fifth consecutive cut in five years.

4. "Response time" is a dimension which is identical to Hermann's definition but again depends on the researcher's ubiquitous "panel of experts" to judge the time between the occurrence of the crisis event and the point at which decisions on how to respond to it must be made. A hurricane has about zero response time objectively speaking while a funding reduction may allow several

months between receipt of the official notification of what the next year's appropriation or grant would be and the time that a firm budget and related changes must be announced.

The foregoing dimensions of crisis can clearly vary independently along continua from one extreme to the other and combine to create many different types of objective crisis situations. Considering only the extremes, one could have a crisis such as a major fire caused by lightening which, in the judgement of outside experts on the organization, could be said to be a crisis of high severity with a very low response time which offered no clear prior information, no forewarning and a very low rate of prior occurrence. The reverse situation of low severity, much response time, clear prior information with much forewarning and frequent previous occurrence is virtually no crisis at all but in fact a routine situation. In between the extremes are many possible combinations.

When one applies the notion of objective crisis conditions to the more narrow situation of funding reductions in human service organizations one can somewhat narrow down the total range of potential crisis types to a relatively few common situations. (See Figure 2). We suggest five such patterns of budget crisis:

1. The "Big Bomb" Cut: This is a large reduction in funding which is objectively severe, requiring response in a very short time period and preceded by little clear information, little forewarning and in the context of a very low rate of prior occurrence. Many state supported universities in Canada, funded on a grant-per-student formula, suffered such cuts when enrollments first took a large decline in the early 1970's after the post-

war baby boom had gone through the system.

(Insert Fig. 2 about here)

2. The "Time Bomb" Cut: In certain areas the cuts have been "big bomb" except in the realm of prior information. Unlike the aforementioned universities, certain funding agencies in the area of public schooling for example were faced with cuts for the first time in years but were provided considerable clear information in the form of demographic forecasts which allowed ample time to prepare for them. Thus they knew they were sitting figuratively on a time bomb and had some time to prepare for, though not prevent, its detonation.

3. "Anticipated Major" Cuts: This pattern is one that has often set in following an initial "big bomb" cut. They are characterized by relatively high severity (e.g., five to six percent reductions in budget) but on a regular, recurring, basis (while the "time bombs" are rare in occurrence). Prior information that such recurring cuts will occur is relatively clear; it is provided well in advance of the actual event and there is thus good lead time prior to implementing decisions.

4. "Anticipated Minor" Cuts: This pattern is the same as the preceding one except the cuts are not as severe. Typical are municipally funded services in slowly declining communities in which they are not able to keep budgets up to the rate of inflation, but conversely, do not have to actually reduce them. The effect is to experience a "slow squeeze" on services.

5. "Erratic Cuts": A final pattern which may exist, though it is not so common in recent years with the general tightening on government spending, is that in which cuts occur with some frequency but vary erratically in terms

Fig. 2.

Types and Dimensions of Cutback Crises

Type	Dimensions			
	Objective Severity	Surprise	Objective Rate of Occurrence	Response Time
"Big Bomb Cuts"	High	Low	Low	Low
"Time Bomb Cuts"	High	High	Low	High
Anticipated Major Cuts	High	Low	High	High
Anticipated Minor Cuts	Low	Low	High	High
Erratic Cuts	Unpredictable	High	Unpredictable	Low

of interval and severity, and thus usually present little prior information or forewarning. Governmental bodies which fairly frequently change hands between political parties of widely divergent philosophies commonly manifest this situation. It has been said that the wide differences in ideology and frequent changes in office of the Labour and Conservative parties in Britain have created this climate of unpredictability in the state funded organizations there.

B. The Causal Roots of Cutbacks

While it is tempting to consider funding cutbacks solely as forms of crisis and proceed on the assumption that their crisis characteristics are the primary ones which are attended to by organization members, this would be a mistake. There are at least two other aspects of cutbacks that have potential relevance to shaping the organization's response: The causes for cutbacks and the power of the funding agency.

One of these have been identified by Charles H. Levine (1978) in an article in a recent special issue of Public Administration Review devoted to financial hard-times. Levine develops a matrix of "causes of organizational decline". He asserts that the critical aspects of such decline are:
1. whether the cause is due to conditions internal or external to the focal organization and 2. whether the cause is due to "political" or "economic/ technical" reasons. Putting these together he presents four types of decline or, in our terms, four causal bases for budget cuts:

"Problem Depletion" is externally caused decline for political reasons having to do with the belief that the goals of a given organization are no longer important.

"Environmental Entropy" is externally caused decline for economic/ technical reasons such as shifts in population, technological change and similar "non-political" factors.

"Political Vulnerability" is internally caused decline for political reasons. That is to say an organization brings on its own financial problems by not building adequate external support for its activities.

"Organizational Atrophy" is internally caused decline for economic/ technical reasons. This is loss of support due to internal mismanagement which leads to unacceptable performance.

Levine's emphasis on the causes of budget cuts as critical in shaping the organization's response is useful though the particular scheme suggested has problems associated with it. In particular, following the Milburn et.al., critique of Hermann, the 'objective' causes of cutbacks may not be perceived as such by the key decision-makers in the organization hence a researcher must measure the objective and subjective separately. More importantly, however, one may find that in fact there are multiple causes operating simultaneously or at least sequentially. That is, any given cutback in a hospital or school system for example, could be a result of "problem depletion", "environmental entropy", "organizational atrophy" and "political vulnerability" or any combination of these. Presumably the more "causes" operating, the more severe the cutback effects will be.

C. Funding Agency Power

The final characteristic of funding reductions which should be paid heed is one that has not been derived from any previous literature on the subject but rather from the literature on power relations (e.g., Gamson, 1968;

Blau, 1964; Cartwright, 1959). It is the question of the extent to which the funding agency can influence the specific nature of the cuts to be made. In most human service organizations there is an "arms length" relationship of semi-autonomy whereby the funding agency can determine the "global budget" or size of a major grant for a specific organization but not specify in any detail how it is to be allocated (or what cuts to make if the sum is inadequate). However, there are many intermediate positions between this and the other extreme of total control by the funding agency. While this condition of the amount and kind of power of the funding source is clearly relevant in shaping the focal organization's response, it must be recognized that measuring it is fraught with difficulty. Not only is it difficult to get the "inside" information on influence attempts but the varied use of authority, power and influence and their various bases would be extremely difficult to disentangle.

In sum, this section has argued that, while the subjective interpretation of the nature of funding cutbacks is crucial in determining the organization's response, this interpretation is strongly influenced by the "objective" conditions of the cutback. It was suggested that their crisis-like quality is one major element of these conditions and five crises dimensions were identified. It was also suggested that another important objective dimension of cutback is the cause of the cuts in the eyes of the funding agency being seen as lying inside or outside of the focal organization and arising as a result of response to techno/economic rationality or political exigency. Finally the power of the funding agency to determine for the focal organization the specific way money would be saved to meet the reduced budget was mentioned

as a vital condition.

II CONTEXTUAL CONDITIONS INFLUENCING THE SUBJECTIVE INTERPRETATION OF CUTBACKS

The literature on individual and organizational responses to impending disasters is replete with evidence on the failure of the victims to notice the signals, prepare for the event or cope with it constructively once it occurred (e.g., Janis and Mann, 1977; Turner, 1976; Starbuck, et.al., 1978; Dunbar and Goldberg, 1978). The fascinating question, of course, is why some cope better than others. In the particular context of this paper the question is what makes for differential perceptions of the characteristics of budget cuts which in turn shapes the response to them.

As suggested in the review of the conceptual framework underlying this analysis (see Fig. 1) these perceptions are seen as being a function of the objective characteristics of the cutbacks plus the impact of three major sets of "contextual" conditions: (1) the environmental conditions; (2) the background and personality characteristics of key decision makers and (3) characteristics of the organization's existing design.

A. Environmental Conditions Relevant to Cutbacks

We shall begin with elements of the organizational environment relevant to the interpretation of cutbacks. Though no one has yet made the point in the literature, it nevertheless seems obvious that an organization will be more alert and prepared to face a cutback if similar organizations have already had to face such an event and if the focal organization is in an information network which would make it aware of such happenings. Thus, the more extensive an organization's connection to an inter-organizational network the greater the probability that it will be warned of impending generic cutbacks and be able to

prepare for them.

A related dimension of the environment is the degree of competition faced by the organization. Studying business organizations Khandwalla (1977) found that the more there was "intense rivalry" between organizations, the more such organizations maintained sophisticated information systems for monitoring the environment hence the more likely they would be to pick up early warning signals of impending crisis. Of course, the paradox is that many, if not most, human service organizations are funded primarily by the state and hence do not directly "compete" with one another in a marketplace. Thus a sense of rivalry and its associated sensitivity to change does not come naturally to them though it may develop in time as they compete for scarce government money.

Finally there is another aspect of the context of cutbacks which has not been considered before but is nevertheless likely to be significant. This is the extent to which the cutback is discrete as opposed to being embedded in a larger value framework in society. In the past there have always been various social services which, for reasons unique to themselves, have had their funding pared back while others around them continued to flourish in a general climate of growth. This is a substantially different situation from that which appears to exist today: a general and pervasive belief in the need for reductions in government spending such that virtually all services funded by the state become highly susceptible to cutbacks. It is probable that the latter situation increases sensitivity and preparedness more than the former.

On the other hand, other environmentally situated value systems may exist to exacerbate the situation. One such system would be the growth of a general sense of uncertainty in society about social priorities and

programs, e.g., Galbraith, 1977, Strangert, 1977, Mack, 1971, Hainer, et.al., 1967. Such a condition would intensify the dilemma of the managers in deciding what to cut since a general consensus about what was important would be lacking.

A final way that the environment shapes the perceptions of cutbacks is indirectly through its influence on other organizational characteristics which in turn effect these perceptions. Such characteristics are discussed here under two headings: Characteristics of Key Individual Decision Makers and Characteristics of the Elements of Organizational Design.

B. Background and Personality Characteristics of Key Decision-Makers

In their recent review of several case studies of European businesses confronting serious declines in sales and profits Starbuck, et.al., (1978), concluded that "organizations which encounter crises do not have qualitatively unusual characteristics and they are not fundamentally abnormal" (p. 114). Though this assertion is modified somewhat later in their article they go on to conclude that "indiscriminate replacements of entire groups of top managers are evidently essential to bringing organizations out of crisis" (p. 124). These statements strongly imply that a critical element shaping the perceptions of and responses to crises is the individual personalities of key decision-makers in the organization. This conclusion as to the importance of the individual is supported in the writing of Dunbar and Goldberg (1978), reviewing twenty case studies of "mismanagement" in European organizations, Khandwalla (1978), and Anderson, Hellriegal and Slocum (1977).

Even though much research remains to be done to establish the relative significance of personality as against organizational variables for perceptions

of crisis, some interesting hypotheses regarding the former are available. Holsti (1978) argues that the prime element shaping reaction to objective crisis events is stress. He cites considerable psychological literature in support of the position that the greater the stress felt, the narrower the decision-maker's span of attention, the greater the "cognitive rigidity" (ability to think creatively, flexibly) and the shorter the time perspective. Those in turn affect cognitive performance so as to reduce the ability to find and process valid information, rationally evaluate alternatives and profit from feedback once a choice is made. Janis and Mann's (1977) review of individual responses to sudden impending disaster reaches similar conclusions.

Billings et.al., (1979) also believe individual differences to be important. They review literature (Jackson, 1976; Rotter, 1960) indicating that personality types with high anxiety, low self-esteem and low felt control over their lives are more likely to emphasize the negative consequences of any given event and believe that such bad outcomes are more likely to occur. Thus the perceived severity of a crisis will be higher for such people that those with opposite characteristics. They also suggest that "Type A" personality types (Zyzanski and Jenkins, 1970) who are by nature impatient, job-involved and hard driving will perceive less response time in a crisis than Type B's, and thus press for more hasty decision-making.

Aside from general personality traits it may well be that individual background differences play a highly significant role. The amount of knowledge, training and experience possessed by a decision-maker in the field in which a crisis occurs can, on the one hand, provide the professional expertise to anticipate and successfully respond to it in much the same way that a veteran

sea captain or airline pilot is usually superior to a novice in dealing with an emergency in his craft. This depends however on there having been real or simulated crises of a similar type in the person's past experience. Conversely, long prior experience in which no similar crisis has occurred can result in a less effective response. Being more "set in one's ways", the more senior official is less likely to perceive warning signals and correctly interpret new information. A less thoroughly socialized individual may respond more flexibly and creatively. As noted earlier, in human service organizations growth has been the dominant condition since the second world war so very few managers in these organizations have had prior experience in handling an unwanted and unanticipated decline. Insofar as this is so, one might expect that the greater the seniority of key decision-makers, the more severe the crisis dimensions of cutbacks will be seen to be.

C. Characteristics of Organizational Design

In spite of the previously noted disclaimer of Starbuck et.al., as to the insignificance of the structure and processes of the organization in differentiating between their success in coping with crisis, a great deal of organizational literature would suggest that the state of the organization when cutbacks occur is indeed important. From the point of view of how the key decision makers perceive the "objective" crisis-like dimensions of funding cuts, the major relevant element of organization functioning is its information system. If data are in fact potentially accessible which would give warning of the nature and extent of impending cuts, does the organization have the capability of locating it, taking it in and channeling it to the people who must decide on response? Also does the system provide adequate

information about possible alternative courses of action and their likely outcomes?

The question is, then, what determines the quality of the information system for coping with crisis? Galbraith (1977) offers an excellent framework for considering various organizationally based influences. He conceives of organizational design as all the elements of organization which influence the degree of certainty possessed by a decision-maker in choosing the actions most effective for achieving the organization's goals. Five basic elements of design are identified. These are the aspects of the organizational functioning which can be intentionally manipulated. They are: the choice of strategy for the organization (products/markets, technology, location) which sets the organizations goals and tasks; the choice of formal organization structure; the choice of information technology; the choice of human resources and the choice of reward systems to apply to the human resources. How can these elements shape the perception of crisis?

Strategic Decision-Making. Starbuck, et.al., (1978) Dunbar and Goldberg, (1978), Khandwalla, (1978) and others have pointed out that if an organization does not have a clear idea of its objectives and priorities it lacks a criterion against which to assess incoming information. Human service organizations (e.g., hospitals, universities) are characterized by multiple, sometimes mutually conflicting, vague and difficult to measure objectives. In such a situation indicators of impending cutbacks (and other kinds of crisis) can be overlooked because there are no occasions for assessing trends in goal achievement as is the practice in business organizations with their famous "bottom line" of profit. On the other hand, it is also true that the

opposite extreme is equally detrimental: this is the case of an unwavering "blind" commitment to a particular set of stretegic decisions. So loyal are the key managers to a particular set of products, markets, clients, technologies and locations that when the environment shifts rendering them unsuitable, the organization can not see the shift. Being unable to consider radical alternatives for its resources makes a funding reduction seem much more severe than in a more strategically flexible organization.

Organization Structure. One of the more widely accepted hypotheses in the literature of modern contingency theory is that the more an organization depends on hierarchy, rules and standard operating procedures, the less able it will be to adapt to a changing environment (e.g., Lawrence and Lorsch, 1967; Thompson, 1967). Since objectively sudden and severe funding cutbacks represent a radical shift in the environment of human service organizations, one would expect that a highly formalized structure would result in cutbacks being seen as more severe than they really are and would certainly reduce the ability to generate information on alternative solutions.

Again, however, the opposite extreme could be equally deleterious and it is this extreme that is more commonly found in human service organizations. In the "good times" of virtually unchecked largesse lavished on universities, for example, they could grow with very little in the way of hierarchy, rules and procedures. Informality and collegiality coupled with loosely defined jobs and reporting relationships were the norm. Since most everyone was allowed to "do their own thing" few were willing to develop mechanisms to warn of a potential threat to this situation. Hence the first occurrence of declining enrollments and reactions against government spending

in the early 1970's came as a numbing shock to many such organizations.

In a similar vein the degree of centralization of authority can have a negative impact at both extremes. In one instance an overly centralized authority structure can create such an information overload that the key decision-makers at the top have neither the time nor expertise to attend to incoming warnings about the nature and extent of potential crises hence they are more likely to be caught by surprise and to "overreact" (Galbraith, 1977).

At the other extreme is the "overly-decentralized" organization. Insofar as this condition represents a low level of organizational integration (Lawrence and Lorsch, 1967) it means that no one is looking at the "big picture" of what is affecting the organization as a whole. Individual "specialists" in various functional, product or project areas either do not see "larger" indicators of crisis or, if they do and report them, there is inadequate centralized control and expertise to interpret and respond to their message. In fact it is most likely to be interpreted as a temporary and minor problem of concern only to the specialized area that reported the information, hence, again, the crisis comes as more of a surprise when it hits. In human service organizations with their relatively collegial structures and heavy predominance of professionally trained specialists interested mainly in their own field of competence (e.g., doctors, university faculty, social workers), it is the latter situation which is likely to be more common.

Information Technology. This refers to the formal mechanisms for the collection and dissemination of information for decision-making. They include all reporting systems, cost controls, budget-setting procedures and

performance indicators and their related forms and machines such as calculators, computers, etc. Galbraith (1977) describes these in terms of their timing scope. The timing of an information mechanism refers to the intervals at which it reports (ranging from continuous feedback as is possible with computers, to periods of days, weeks, months or years). The scope of a mechanism refers to breadth of information collected ranging from that of relevance to only one part of the organization (local) to that relevant to the organization as a whole (global). Clearly information mechanisms which are local and periodic are less likely to provide a clear early warning of an impending event of organization-wide significance such as a large funding cut than those which are global and continuous. This hypothesis is most easily illustrated in business organizations and their efforts to continuously monitor and interpret trends in sales, raw material supplies and prices, scrap rates, etc.

Unfortunately in human service organizations special problems arise once again. Because, as Downs (1967) has pointed out, the inputs (funds and other resources) of the organization are not directly influenced by the amount of output via a market mechanism, there is a low incentive to formally gather and process information on either side of the equation. Until the advent of financial hard times such organizations thus tended to have only the most primitive ways of finding out intentions of their funding sources, little or no feedback from clients and quite unsophisticated cost control systems. As a result they were caught flat-footed by a budget crisis.

Another aspect of the information mechanisms which shapes the way a crisis will be perceived is in the way they are used. As Merton, (1957) and Blau, (1955), long ago demonstrated, a control device which is used as an instrument for

judging and blaming people for poor performance is quickly subverted by subordinates so as to reflect only good news or to deflect blame for bad news. In either case timely and reliable news about an impending disaster coming into the hands of a subordinate will be less likely to be passed up if the "messenger" is likely to be blamed for it in some way.

Selection and Training of Human Resources. The effect of individual background and personality variables on how people perceive a crisis has already been discussed. Whether or not people capable of functioning well in a crisis are in the right places when one hits depends on the organization's policies regarding selection, promotion and training of its human resources. Those which select people for more or less routine jobs at the bottom and proceed to "promote from within" are likely to end up with key decision-makers who are less able to see a crisis coming and adapt to it. Again, the opposite extreme is also true in that people inexperienced in the work of the organization (as in the case of an executive group obtained entirely from "outside") while not hidebound and rigid, may not be familiar with what alternatives are feasible. Thus they would likely see a crisis as more severe than a cool veteran. As noted earlier likelihood that a particular response will occur depends on the frequency of similar previous crises or, in other words, the experience of the decision makers.

Similarly in the case of training one can find organizations where training has had the effect of reinforcing inappropriate definitions of the situation and responses while in other organizations the training has been a liberating force lifting people out of their ruts and introducing them to new ideas and approaches. In human service organizations the tendency has

been to concentrate training activities in the areas of professional specialization of the main employee groups. Management training, particularly that relevant to coping with cutbacks, is much less emphasized thus creating another reason to expect a budget cut crisis to be perceived as more severe than it actually is.

Reward Systems. The final element of organizational design which impacts the perceptions of crisis is the system of rewards and punishments i.e., that collection of policies and management practices which are meant to influence employee motivation. The most relevant aspects of motivation to how budget cuts will be perceived are those which affect the sensitivity and flexibility of key decision-makers when faced by indicators of the event.

Starbuck, et.al., (1978) discusses the importance of the chief executive in a crisis situation. They note that a set of expectations from Boards of Directors placing high pressure on the chief executive to produce in terms of return on investment, seems to motivate that person to make an unreasonably rigid commitment to his strategic decision choices such that he may overlook indicators of their weaknesses until too late. In the case of state funded human service organizations the same situation could occur but it is more likely to be one at the opposite extreme. Prior to the first onset of cutbacks, there was little reward or punishment from any source inside or outside such organizations to reinforce a concern with cost/benefit effectiveness; rather the motivational impetus from all sides was to grow, and improve the quality and quantity of services offered within only the lowest of financial constraints.

III SUBJECTIVE INTERPRETATION OF CUTBACKS

A. Perceived Crisis Characteristics

The contextual conditions which surround a funding reduction was discussed in the previous section primarily in terms of how existing literature implicitly or explicitly suggests they affect the perception of the crisis-like characteristics of the event. Thus we will not repeat that discussion in this section. In the analytic framework presented in Fig. 1 however, it was noted that the perceptions of cutbacks was suggested as being a function of an interactive effect between the "objective" characteristics of the event and the contextual conditions.

Obviously a vast number of such interactions are possible given the number of variables that have been identified and discussed. Unfortunately it is not possible to make even inferences from existing literature as to the nature of such interactions with regard to perceived crisis. Since this paper seeks only to discuss that which might be derived from such literature no attempt is made to create such interactive hypotheses at this time. This will remain to be achieved through future empirical research.

B. The Perceived Causal Roots of Cutbacks

It was noted earlier, that the crisis-like qualities of cutbacks were not their only significant feature. Of equal importance is Levine's (1978) idea of the causal structure of the cutback (whether it occurs as a result of internal or external forces and for political or techno/economic reasons) and the power of the funding source to specify the nature of the cuts to be made. As pointed out in our conceptual framework there is a need to distinguish between the "objective" characteristics in these two areas and how they are subjectively perceived.

The discussion of how "causal roots are perceived", however, can be

considerably more brief than that of the perceptions of crisis because (a) in many cases it is difficult to deny or fail to see the objective conditions and (b) there are fewer other factors likely to have a strong influence on these perceptions. For example if all hospitals in an area are cut four percent by a provincial Department of Health it is difficult to perceive this as anything other than due to external forces. Similarly, if state grants to universities are on an amount-per-student formula and the number of students decline it will be difficult to deny that the reduced funds are based on techno/economic conditions.

On the other hand there are no doubt other kinds of funding cuts which are more ambiguous as to their causes hence more open to diversity of interpretation. In these cases, while there may be some internal forces pushing decision-makers toward a certain kind of misinterpretation of events, it is more likely that the most important source of misperception stems from the other actions of the funding agency and other elements in the environment. Since most governmental funds come ultimately from the decisions of the political party in power it is possible for them to distort or confuse the issue by the explanations they themselves offer for their actions. Thus, for example, they may "explain" a given cut on the basis of it being a reflection of internal mismanagement which could be corrected by more rational administrative behavior (i.e., there is a lot of unnecessary "fat" in the university system); yet in fact, the "real" reason could be the political pressure of various organizations of voters or other influential bodies. In this instance the focal organization which responds by trimming its "fat" is surprised to find that they are expected to cut just as much the following

year. The converse is also true. Certain forces in the environment such as public service unions, will tend to "explain" cuts as pure political opportunism -- the party in power pandering to the wishes of an ignorant electorate--while conveniently ignoring "rational" economic factors such as declining population figures which reduce the demand for certain services. If this kind of erroneous interpretation is accepted by the focal organization it may provoke a refusal to cooperate that ends up creating an even worse cutback situation later.

In addition, of course, it is possible that inexperienced decision-makers and inadequate internal and external information systems will likely also lead to misperceptions of the causal roots of cuts given some ambiguity in the objective conditions regarding causal roots. Thus if a funding agency is proclaiming techno/economic causes for cutbacks but acting as though there were a political basis for them (thus creating ambiguity) the particular perception of the focal organization will likely be shaped by the above noted contextual conditions. No research is available as yet to document such influences however; it is not possible to be more specific.

C. The Perceived Power of Funding Sources

Turning to the question of the power of the funding agency, it is again likely that the actual conditions will override the effects of various forces likely to encourage misperceptions. If the provider of funds is in fact able to determine in any detail how the funds are to be used, and makes an effort to do so, it will be difficult for the heads of the focal organization to pretend otherwise. The most likely area of misperception is that where the funding agency may have the potential to specify budget details in a

strictly legal sense but in practise not have done so in the past and in general be unwilling to do so except as a last resort. In these conditions, organizations are likely to vary in terms of how "afraid" they are of the funding body, i.e., their beliefs in how likely it will be that the funding agency will use its power to interfere. The stronger the belief that in fact it will try to impose its priorities, the more sensitive the focal organization will be in trying to guess what those priorities are and take action before it is taken for them by the more powerful agency. In addition to the deliberate or unintended deception of the funding agency, misperceptions of power such as this will most likely arise again as a result of the inexperience of the key decision-makers in dealing with the funding agency coupled with an information system that fails to provide accurate information about the funding agency's behavior patterns.

IV SUMMARY OF HYPOTHESES AND DISCUSSION

Adhering to the position put forward by Billings et.al., (1979) it has been argued that one of the most important determinants of how an organization will respond to a major threat such as a budget cut is the way the cut is perceived by the key decision-makers. This paper has examined a variety of factors in the organization and the contextual conditions surrounding the cutbacks which will shape these critical perceptions. The following hypotheses were suggested on the basis of the literature and are designed for empirical testing and refinement.

Effects of Environment

1. The more often the externally imposed cutbacks have occurred in the

past, the less the element of surprise, hence the less the perceived crisis.

2. The more extensive an organization's connection to an inter-organizational network, the more likely it will be reliably forewarned of impending cuts hence the less the element of surprise.
3. The more intense the rivalry for funding with other organizations, the more sensitive the focal organization will be to information dealing with funding and the less the element of surprise.
4. The more any given cutback forms a part of a trend in attitudes and values favoring a general program of spending reduction by funding agencies the less the element of surprise.

Effects of Individual Differences in Key Decision-Makers

5. The greater the level of stress created by cutbacks, the less the span of attention, the greater the cognitive rigidity, and shorter the time perspective of key decision-makers. This in turn will enhance the perceived crisis-like properties of the cuts.
6. Personality types of high anxiety, low self esteem and type A will be more likely to perceive budget cuts as severe crises.
7. Key decision-makers who have had little or not past experience with budget cuts of a similar nature and extent will be more likely to perceive them as severe crises. Experience and seniority will be either advantagious or disadvantageous in coping calmly with cutbacks depending on the extent to which past experience prepared the decision-maker to handle them.

Effects of Organization Design Differences

8. A lack of clear goals and priorities renders it difficult to interpret information, thereby increasing the element of surprise. Conversely, "blind" adherence to a particular set of clear cut strategic policy decisions can create a similar inability to perceive information.

9. Organization structures high in formality (high emphasis on hierarchy, rules and procedures) will be less likely to filter information relevant to likely funding cuts from lower to higher levels so they will come as a greater surprise to the top decision-makers. Conversely, overly "loose" structures will have too many gaps in their communications systems and too few people attending to information relevant to the organization as a whole, creating the same effect.

10. Organizations with highly centralized authority structures will be more likely to contain key decision-makers who do not have sufficient time to attend to information relevant to impending cuts hence they will experience greater surprise when they occur. Conversely highly decentralized organizations will be more likely to contain too few people willing to take the responsibility to attend to matters of organization-wide relevance hence, again, the key decision-makers will experience a high level of surprise.

11. Organizations which depend on local-periodic forms of information technology are less likely to receive and correctly interpret information relevant to potential funding cuts than those with more

global-continuous forms of information technology.

12. In the absence of a market mechanism there will be a greater tendency for organizations to have inadequate information systems regarding the intentions of funding sources, the reactions of clients or details of internal costs. As a result funding cuts will come as a greater surprise and seem more threatening than in organizations with a market mechanism.

13. The more that information systems are used to judge individual performance the more subject they will be to distortion and omission by subordinates seeking to look good and avoid blame. This will increase the probability that information relevant to funding cuts will not be received by key decision-makers and thus increase the surprise factor.

14. Training, selection and promotion policies which fail to consider how a person has responded or should respond to pressure for cutbacks will increase the probability that key decision-makers will not be psychologically prepared to cope, hence they will perceive cuts as major crises.

15. Key decision-makers who are subject to pressures for an exceptionally high level of performance will be more likely to ignore or misinterpret signals indicating a financial crisis. Conversely those who receive little or no such pressure will have little incentive to attend to such indicators either.

16. Perceptions of the "causal roots" of budget cuts (internal or external; economic or political) will be shaped largely by the behavior of the

funding agency and relevant other external organizations. Under conditions of ambiguity, they are also likely to be influenced by the experience level of the decision-makers and the quality of the information systems.

17. Perceptions of the power of the funding agency to determine the way the focal agency allocates its resources will similarly be determined primarily by the behavior of that agency and other relevant organizations. Under conditions of ambiguity, they are also likely to be influenced by the experience level of the decision-makers and the quality of the information system.

Explicit research on how publically funded human service organizations are affected by cutbacks has not as yet appeared in the literature. However, in light of the hypotheses presented above, it is likely that such organizations would have a particularly difficult time responding to the pressures of funding cutbacks. Both the objective and the contextual conditions of human service organizations create conditions which foster a general lack of preparedness and experience to handle crisis-type problems.

Reviewing the hypotheses, one could infer a series of observations. Until the early to mid 1970's, human service organizations had experienced little or no need for spending restraint and hence had little experience in planning and executing cutback programs. The general climate of growth and the lack of a market mechanism failed to provide an incentive to develop protective interorganizational networks attuned to predicting and combatting cutback pressures. For key decision-makers and related professional and employee groups, the inexperience and unpreparedness in dealing with non-

growth and absolute decline rendered them particularly susceptible to misperceptions, panic, and inadequate responses. This vulnerability would also add to the feelings of stress which create additional dysfunctional perceptions and responses.

Similar to other publically funded organizations, human service organizations possess multiple and ambiguous goals and priorities. Thus, it becomes exceedingly difficult to decide on a response to funding cutbacks which in turn makes the cutbacks seem more severe than otherwise. Moreover, the generous funding of the past created little need to carefully examine priorities and, as a result, the status quo often became deeply embedded and taken for granted as unchangeable. This "blind" adherence to an existing set of programs and policies served to reduce the perceived number of options open for coping with cutbacks.

Another characteristic of human service organizations is that they often develop a relatively loose, decentralized collegial structure to accommodate the large number of professional staff with their own norms, values, and priorities. An awareness of overall organization functioning is thus glaringly absent. Since a "rational" response to cutbacks requires such an overall perspective, this absence is likely to exacerbate the situation.

In sum the characteristics of human service organizations -- i.e., a prior climate of growth, the lack of a market mechanism, and a loose internal structure of semi-autonomous professional groups - all combine to create a condition in which information mechanisms are few and primarily of the simple local-periodic type. These are least effective in coping with the pressures created by funding cutbacks. When the underdeveloped information mechanisms

are coupled with the typical inexperience of decision-makers in dealing with cutbacks, it is also quite likely that there will be misperceptions of (a) the reasons for the cutback and (b) the probability that funding agencies will use their power to dictate the nature of cuts.

In light of the above, one would expect human service organizations to be thrown into a considerable state of disarray by most forms of budget cuts (with the possible exception of those we have called, "anticipated minor cuts"). A theoretical framework has been suggested to explain and predict the determinant conditions, although it is hoped and expected that empirical research will lead to further refinements. A subsequent paper by the authors will trace in detail the contributions of existing research and theory to understanding the actual behavioral responses which arise from the perceived interpretation of cutbacks.

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